

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

SCEM-02 INT-08 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 DODE-00 PA-04 USIA-15

PRS-01 PM-07 DRC-01 /175 W
----- 096950

R 270243Z DEC 73

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 5952

INFO AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE KUALA LUMPUR 5603

E.O. 11652: N/A

TAGS: ENRG,KTMY

SUBJECT: FUEL PRICE INCREASE IS ONLY ADVERSE IMPACT OF OIL
CRISIS FOR MALAYSIA

SUMMARY: ANNOUNCEMENT RAISING RETAIL PRICES OF PETROLEUM ABOUT TEN
PERCENT RELEASED DECEMBER TWENTY-ONE. INCREASE GREATEST FOR GAS-
OLINE, LESS FOR DIESEL AND FUEL OIL, AND UNCHANGED FOR KEROSENE.
SINCE PRICE LISTS ESTABLISH DISPARITIES WITH SINGAPORE SOME
DISTRIBUTIONAL PROBLEMS EXPECTED. AS NEW PRICES AGREED UPON PRIOR
TO LATEST OPEC DECISION ANOTHER ROUND EXPECTED SHORZUY. OTHER THAN
PRICE INCREASES, IMPACT OF OIL CRISIS SO FAR IS MINOR, THOUGH
INCREASING CONCERN EVIDENT THAT RECESSION IN DEVELOPED COUNTRIES
MIGHT HAVE TROUBLESOME REPERCUSSIONS. TO DATE, HOWEVER, OIL CRISIS
IS VIEWED AS HAVING BENEFICIAL RESULTS FOR MALAYSIA.
END SUMMARY.

1. GOM AND DISTRIBUTING COMPANIES (PRINCIPALLY ESSO AND SHELL)
HAVE BEEN NEGOTIATING PRICING INCREASES FOR SEVERAL WEEKS WHICH
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ENDED WITH AGREEMENT ANNOUNCED DEC TWENTY-ONE FOR RETAIL PRICE

HIKES AVERAGING ABOUT TEN PERCENT. LARGEST INCREASE IS FOR PREMIUM GASOLINE, WHICH GOES UP THIRTY-FOUR CENTS PER GALLON, IE, ABOUT FIFTEEN PERCENT. OTHER PRODUCTS GO UP RELATIVELY LESS, REFLECTING GOM DESIRE TO SHELTER LOWER INCOME AND INDUSTRIAL FUEL USERS. PRICE OF KEROSENE WHICH IS MAINLY MARKETING FOR LIGHTING AND COOKING OF LOW INCOME MALAYSIANS IN RURAL AREAS IS UNCHANGED. IN FACT, TAX OF SEVEN CENTS PER GALLON IS BEING DROPPED BY GOM TO ALLOW COMPANIES TO RECOVER RISE IN COSQLAT REFINERY.

2. ACCORDING TO COMPANY REPS IN KUALA LUMPUR PRICE CHANGES ARE NOT EVENLY SYNCHRONIZED WITH THOSE WHICH GOVT OF SINGAPORE ANNOUNCED A FEW DAYS EARLIER, CAUSED PARTLY BY WILLINGNESS GOM TO ACCORD FULL COST INCREASE TO COMPANIES AND GOM DESIRE TO TAKE PART OF INCREASE IN ADDED TAXES. MOST STRIKING DISPARITY IS FOR PREMIUM GASOLINE. ALTHOUGH IT WILL CONTINUE TO SELL FOR APPROXIMATELY SAME RETAIL PRICE IN BOTH COUNTRIES, ADDED RETURN TO COMPANIES WILL BE MUCH GREATER IN MALAYSIA THAN IN SINGAPORE BECAUSE OF GOM TAX RISE OF NINETEEN CENTS VERSUS NO TAX INCREASE BY GOM. HIGHER RETURNS FOR COMPANIES SELLING IN MALAYSIA WOULD APPEAR LIKELY TO ACCENTUATE SUPPLY PROBLEMS FOR SINGAPORE IN A TIGHT MARKET, THOUGH COMPANY REPS SAY THEY NOT EXPECTING TO TAKE ADVANTAGE OF RELATIVELY GREATER PROFIT MARGINS IN MALAYSIA.

3. COMPANY REPS (SHELL AND ESSO) TELL US (AND GOM CHIEF NEGOTIATOR RAMA AYER CONFIRMS) THAT THIS ROUND OF PRICE INCREASE WITH GOM WAS MOST CONGENIAL IN RECENT YEARS (A POSTURE WE ATTRIBUTE TO MALAYSIA'S OWN OIL DISCOVERIES AS WELL AS ITS DESIRE TO ENCOURGE REFINERY CONSTRUCTION HERE). GOM ACCEPTED AT OUTSET PRINCIPLE OF FULL COST RECOVERY FOR COMPANIES AND ONLY MAJOR ISSUE IN NEGOTIATIONS WAS OVER DISTRIBUTION OF COST INCREASES FOR FULL

RANGE OF PRODUCTS. GOM WAS INSISTENT ON SHELTERING LOW INCOME AND PRODUCTION USERS, EVEN TO THE POINT OF ASSERTING THAT "ANY PRICE INCREASE" WAS ACCEPTABLE FOR PREMIUM GASOLINE AS LONG AS OTHER PRODUCT PRICES PROTECTED. ALTHOUGH COMPANIES COULD NOT ACCEPT GOM DEMANDS, FOR TECHNICAL AND REFINERY MIX REASONS, THEY DID END UP WITH PRICE SPECTRUM TO MEET GOM WISHES.

4. GOM'S EFFORTS TO SHIELD THEIR INDUSTRIAL AND LOW INCOME

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CONSUMERS HAVE TO DATE BEEN RELATIVELY EFFECTIVE AND THE SECONDARY EFFECTS OF THESE PRICE INCREASES ON ELECTRIC POWER, TAXI AND BUS FARES, ETC, ARE EXPECTED TO BE MINOR. PUBLIC REACTION HAS BEEN

DAMPENED BECAUSE INCREASES FORESEEN, WHILE GREATEST OUTCRY SO FAR HAS COME FROM SMALL-SCALE TIN PRODUCERS WHO FIND ADDITIONAL GROUNDS IN HIGHER FUEL COSTS FOR DEMANDING RISE IN ITC SUPPORT LEVELS. MUCH MORE GRUMBLING CAN BE ANTICIPATED, HOWEVER,

ESPECIALLY AS REALIZATION DAWNS THAT ANOTHER ROUND OF INCREASES
MUST FOLLOW RECENT OPEC DEPRATIONS IN TEHRAN MEETING.

5. INCREASING CONCERN IS ALSO BEING VOICED ABOUT POTENTIAL
SECONDARY EFFECTS OF OIL CRISIS STEMMING FROM ECONOMIC SLOW DOWN
IN INDUSTRIAL NATIONS. DEPUTY PRIME MINISTER HUSSEIN ONN
ACKNOWLEDGED THIS PROBLEM IN A DEFENSIVE REPLY TO PARLIAMENTARY
QUESTIONING LAST WEEK, CONCLUDING ON EUPHORIC NOTE THAT ON BALANCE
MALAYSIA'S SITUATION WAS IMPROVED BY THE ARAB MOVES. FINANCE
MINISTER TAN SIEW SIN WAS LESS OPTIMISTIC IN SPEAKING TO
PARLIAMENT, AND HIS MINISTRY'S ECONOMIC REPORT FORECASTS A DOWN
TURN IN MALAYSIA'S ECONOMIC GROWTH (FROM 8 TO 7 PERCENT) "WHICH
WILL BE WORSENERD" IF THE CRISIS CONTINUES FAR INTO 1974. LESSER
OFFICIALS REFLECT SIMILAR THINKING, BUT IN EQUALLY SUBDUED TONES.

6. CONSIDERING MALAYSIA'S PROVEN VULNERABILITY TO INTER-NATIONAL
MARKET RECESSION, GREATER ANXIETY FOR THE COMING MONTHS MIGHT
BE EXPECTED. YET MALAYSIA HAS NOT SUFFERED ANY DIRECT DEPRIVATION
FROM THE CRISIS. AND WITH RUBBER AND TPA GOING AT HIGHER PRICES
IN SELLERS MARKETS AND FOREIGN EXCHANGE BALANCES SOARING AS A
RESULT OF THE EMBARGO AND PRODUCTION CUTBACKS IMPOSED BY THE
ARABS, THE OIL CRISIS FOR THE GOM LOOKS LIKE SANTA CLAUS
DRESSED IN A CHOKI.
CHESLAW

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, SUPPLIES, EMBARGOES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 27 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973KUALA05603
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: KUALA LUMPUR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973125/aaaaadsb.tel
Line Count: 139
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 28 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28-Nov-2001 by martinml>; APPROVED <26-Dec-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FUEL PRICE INCREASE IS ONLY ADVERSE IMPACT OF OIL CRISIS FOR MALAYSIA
TAGS: ENRG, MY
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005